



Financial Affairs Committee
November 7, 2000

1. Opening Business

The November 7 meeting was held in the Avila Room at the Anaheim Hilton, Anaheim, CA as part of the ACWA conference. The joint Financial Affairs/Operations Committee meeting began at 1:00pm. The Financial Affairs Committee meeting consisted primarily of a presentation by Chairman Ron Jacobsma outlining the issues currently being worked by the Committee. The Operations Committee meeting consisted of a presentation by Reclamation that unveiled its 5-year strategic plan and a Washington report by Joe Raeder of the Ferguson Group.

The next Financial Affairs Committee meeting will be held **December 1 at 9:30am in the ACWA Office Boardroom, 910 K Street, Sacramento.**

2. Ron Jacobsma discussed the following issues.

--2001 Water Rates. Ron reported that the FAC is in the process of reviewing the draft 2001 water rate schedules that were recently released by Reclamation. He expressed concern that the rates are steadily increasing and stressed that they must be contained as the farmers are reaching the point where they cannot afford to purchase the water they so sorely need. He reported that Reclamation has included the FAC in its O&M Budget formulation process, but we still have a ways to go before we thoroughly understand the process.

--2002 Capital Cost Recovery Methodology. Ron discussed the recent letter from the MidPacific Region's Director, Lester Snow, regarding Reclamation's intent to modify the way it computes CVP capital water rates. Reclamation will continue to utilize the capital rate methodology used for the 2000 capital rates to calculate the 2001 rates but will be changing the methodology for the 2002 rates. Reclamation is concerned that the current methodology results in under collection in the early years of the repayment period and unacceptably high rates in the later years in order to recover all capital costs by 2030. Ron reported that Reclamation intends to initiate discussions on capital and deficit rate setting within the next month or so with the intent of finalizing a 2002 methodology by June 15, 2001. Reclamation wants to work with the water contractors to describe the problem, identify alternatives such as delivery averaging, adjusting water delivery schedule A-12, etc., and to develop a methodology that achieves capital and deficit recovery in an equitable and businesslike fashion.

--CVP Cost Reallocation. Ron reported that a preliminary draft report has been completed by Reclamation that identifies the preferred CVP cost allocation methodology. A public meeting will be scheduled for some time in November to release the draft and to obtain public comment. Reclamation will be putting the draft report on the Internet so that it can be reviewed prior to the public meeting. There will be a second public meeting scheduled to respond to any questions received as a result of the first meeting. Reclamation has made it clear that the alternative selected would be an interim cost allocation. Reclamation is considering including a budget request for a full SCRB for the FY2003 budget and would like contractor input regarding this issue.

--Post 2004 Energy Options. Ron reported that Reclamation is studying post 2004 energy operations options. This study is considered to be necessary as the “load balancing” contract with PG&E expires in 2004. The study compares two hydropower generation alternatives—“maximum peaking” and “load following”. The maximum peaking alternative would result in a higher net energy value for CVP produced energy than would the load following alternative. The maximum peaking alternative is the preferred option and, if adopted, the Western Area Power Administration would administer the program. Still to be discussed is the determination of an equitable means of allocating this higher net energy value between Project Use Energy contractors and Preference Power contractors. Questions were generated during this discussion and Chase Hurley, who has been very active in this issue, agreed to provide additional information and examples as to how the alternative would result in savings to the water contractors.

--Water Account Reconciliations. Ron reported that Reclamation has been working for some time to reconcile its water delivery records with its advance payment records for all water contractors, but because of limited staff resources, the process has been quite slow. Of the 843 water contractor accounts that need to be reconciled-376 have been completed and 467 still need to be reviewed. Of the 376 accounts that have been reconciled, 63 are still open because the contractors have not responded to Reclamation’s request to review and comment on the reconciliation results.

The FAC has been working with Reclamation to develop a process that would simplify and speed-up the reconciliation process. It was agreed that the process could be shortened if the water contractors were to analyze their records and detail their payments and charges by month, from the date the accounts were last reconciled, using the same timing and format used by Reclamation, prior to Reclamation’s staff getting involved. Reclamation would essentially limit its work to reviewing the reconciliations submitted by the contractors and researching discrepancies to ensure that the contractor’s records tie into Reclamation’s. Once the contractors and Reclamation agree with the results of the reconciliations, Reclamation’s accounting records would be adjusted accordingly.

Ron has been working with Jim Bjornsen to come up with a process that would make the reconciliation effort much easier on the contractors and on Reclamation. Ron polled the Friant water contractors and found they would be interested in participating in a workshop to further explore the proposal mentioned above. Anthea Hansen, Del Puerto Water District, (who has gone through this process with Reclamation) has agreed to work with Reclamation to develop a pilot process that could be used by other contractors to reconcile their water records with Reclamation's. More information will be forthcoming in the next few months with respect to this proposal.

--Financial Affairs Committee Structure. Ron reported that the Committee has been discussing ways to structure the FAC to best enable us to tackle the myriad of water and power related issues in the most efficient and effective manner. He commented that he has served as the chairperson for a number of years and was concerned that a "formal" process did not exist with respect to nomination of a chair or vice chair by the committee and recommendation to the CVPWA Board of that nomination. He felt it would be appropriate to explore a process wherein periodically, perhaps biennially, the chair and vice chair positions were re-elected or confirmed. He also pointed out that the FAC has not had a vice chair for quite some time and that position should be filled.

Ron outlined a proposal for FAC restructuring that would consist of a chair and three vice chairs—one representing M&I, one AG, and one Power. Preferably, should the chair represent primarily one type of contractor, the vice chair representing that same type of contractor would be from a different region, e.g., if the chair represented AG contractors from the southern region, the AG vice-chair would be a representative of a different region.

Term lengths and term-limits were also discussed and the consensus was that terms should be two years in length, but there should not be a limit on the number of terms that one could serve. Every two years the chair and vice-chairs would be elected (or reelected) by the FAC and would be presented to the CVPWA Board for confirmation at the annual January meeting. The FAC will refine and document this proposal for Board consideration at the January Board meeting.